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RUEHBJ/AMEMBASSY BEIJING 0878  
RUEHKO/AMEMBASSY TOKYO 1581  
RUEHUL/AMEMBASSY SEOUL 0565  
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RHEHNSC/NSC WASHDC 1063  
RUEKJCS/SECDEF WASHDC 0977  
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SUBJECT: KAZAKHSTAN: FUTURE OF LARGEST BANKS REMAINS UNCLEAR

REF: ASTANA 0386

11. (U) Sensitive but unclassified. Not for public Internet.

12. (SBU) SUMMARY: Recent developments within the Kazakhstani banking sector -- specifically pertaining to BTA and Alliance banks -- indicate continued instability and increased risk of default on the repayment of foreign obligations. In an April 13 press release, Alliance Bank announced approximately \$1.1 billion in newly discovered obligations. BTA Chairman Arman Dunayev restated the Government of Kazakhstan's commitment to support BTA, but warned that any request for accelerated repayment of debt could force the government to abandon this cause, leaving creditors in the lurch. The government's Samruk-Kazyna National Welfare Funds bought a 22 percent in Halyk Bank on April 2. END SUMMARY.

ALLIANCE BANK ON THE BRINK

13. (SBU) The future of Alliance Bank, Kazakhstan's fourth largest private financial institution, remains uncertain. Alliance has yet to receive the capital injection pledged by the government's Samruk-Kazyna National Welfare Fund when it took over a 76 percent ownership stake in the bank in February for the symbolic sum of 100 tenge (less than \$1). On April 1, the United Kingdom's Financial Services Authority announced a temporary suspension of trading in Alliance Bank securities listed on the London Stock Exchange "pending clarification of the company's financial position." This announcement was made following a press release from Alliance Bank the same day describing a "discovery by Alliance Bank's new management team" that the Alliance's securities portfolio "may be seriously impaired."

IT GETS WORSE

14. (SBU) More recently, on April 13, Alliance Bank announced that it is seeking a three-month standstill agreement from its creditors because of a previous overstatement of assets. According to this statement, "the bank wishes to advise that the overstatement relates to transactions entered into by the Bank between 2005 and 2008 that were not properly recorded on the Bank's balance sheet. The

transactions included guarantees that were issued by the bank that were secured by a pledge of U.S. Treasury securities in the amount of approximately \$1.1 billion." As a result, Alliance said it was "not in a position to repay the outstanding balance due under a facility agreement which matured on March 19." The request for stay of payment by Alliance Bank was confirmed by representatives of Wachovia Bank in a meeting with the Ambassador in Astana on April 15. This announcement led Fitch Ratings to downgrade Alliance's Long-Term Issuer Default Rating (IDR) to RD (Restricted Default). (COMMENT: OPIC informed Embassy that the standstill request might directly impact its \$27 million exposure to Alliance. END COMMENT.)

BTA STILL TOP PRIORITY

15. (SBU) The fate of BTA bank also remains uncertain. However, despite sharply divided opinions regarding whether the government, through Samruk-Kazyna, should have taken over BTA in the first place, the consensus remains that the government will not let it fail. Commitments to the survival of BTA come amidst a growing tally of criminal allegations against its former top executives, Muktar Ablyazov and Roman Solodchenko, both of whom fled Kazakhstan and are believed to be in the United Kingdom. In a rather sharply worded official press release from BTA on March 17, a clear message was sent to creditors not to force accelerated debt repayment, because they would risk losing their entire investments. The BTA press release states "Samruk-Kazyna intends to ensure that the members of the BTA Group continue to pay their financial indebtedness at maturity and interest payments as and when they fall due whilst BTA Bank and its advisers consider any potential modifications to the BTA Group's debt structure to ensure the long term stability of the BTA Group, although in the event any financial

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indebtedness of the BTA Group is accelerated prior to its stated maturity, Samruk-Kazyna may no longer be prepared to provide such support." Meruert Makhmutova, Director of Public Policy Research Center in Almaty, told EconOff on April 6 that the government will maintain the bank until the very last moment regardless of how much it costs, and the price will be high for doing this. Yerlan Sagadiyev, a respected embassy contact and entrepreneur, told the DCM "it will be a nightmare for everyone in government if BTA fails. However, he added "it was stupid for the government to go into the private sector." Sagadiyev claimed that the number of bad loans increased 46 percent in February and alleged that the new management of BTA had lost control of their credit portfolio.

FOREIGN DEBT RESTRUCTURING KEY TO SURVIVABILITY

16. (SBU) According to the press, during a April 13 meeting with President Nazarbayev, the Financial Supervision Agency head Yelena Bakhmutova said that the situation in the banking sector remains problematic. Nazarbayev assigned both Bakhmutova and National Bank Chairman Grigoriy Marchenko the task of reviewing the possibility of debt restructuring in order to lighten pressure on the banking system. On April 15, Marchenko announced that both Alliance and BTA had until the end of April to prepare their programs for restructuring external debts. "After that, it will be clear which portion of the banks' obligations will be bought at a discount, and which portion will be restructured. Then the numbers for external debts of these banks will be understood, and then we can move forward also with our strategic investors, which we have for both banks." Marchenko concluded saying that "if this is done correctly, and all foreign creditors agree to it, it will be beneficial for these two banks we are discussing, for the banking system as a whole, and also for the country."

SBERBANK INTERESTED IN BTA

17. (SBU) Marchenko claimed that the possible strategic investor for BTA remains Russia's Sberbank, and for Alliance Bank is an unnamed local investor. However, Makhmutova maintained to Econoff that it is likely that Sberbank will be even less enthusiastic about the possible purchase once it learns the results of BTA's audit at the end of April.

GOVERNMENT MOVES AHEAD WITH PURCHASE INTO HALYK BANK

18. (SBU) On April 2, Samruk-Kazyna officially announced the purchase of 21 per cent of the common shares in Kazakhstan's third largest private financial institution, Halyk Bank, for 27 billion tenge (about \$179 million). The news came with an announcement from Halyk Bank that it expected the government to inject an additional \$219 million into the bank through the purchase of preferred shares over the following two months. The majority owner of Halyk remains the Almex holding company, which holds approximately 54 percent of its common shares. (NOTE: Almex is owned by Timur Kulibayev and his wife Dinara, President Nazarbayev's second eldest daughter. Kulibayev is currently the deputy head of Samruk-Kazyna. END NOTE.)

19. (SBU) COMMENT: The government remains publicly committed to rescuing Kazakhstan's largest banks. However, its failure thus far to inject the promised funds into Alliance may be an indication it is reconsidering saving that institution because of the high cost of doing so, or it may be waiting to first reach agreement with a private investor to share these costs. END COMMENT.

HOAGLAND